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C O N F I D E N T I A L SECTION 01 OF 04 BUDAPEST 001118

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DEPARTMENT FOR EUR/FO JGARBER AND MBRYZA, EUR/CE, EUR/RUS,
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SUBJECT: PRIME MINISTER GYURCSANY AMBIGUOUS ON NABUCCO,
RUSSIAN ENERGY PARTNERSHIP AT BAKU SUMMIT

REF: A. BUDAPEST 1021

[1](#)B. BUDAPEST 1058

[1](#)C. BAKU 1097

Classified By: DCM Jeffrey Levine; reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Hungarian Prime Minister Gyurcsany continued to play both advocate and devil's advocate for the Nabucco pipeline at an energy summit in Baku on November 14. He argued forcefully for Nabucco on the grounds of its importance to European energy security, based on his comments to reporters after the event. At the same time, his pleas for EU funding and for wider European engagement with the Caspian countries seemed to highlight the project's uncertainties over the opportunities it would offer to suppliers and consumers on each end of the proposed pipeline.

Moreover, his proposal that Eurasian energy questions might best be resolved via a tri-lateral partnership between the EU, the Caspian producers, and Russia suggests that he may have already conceded defeat for a Southern Corridor free of Russian influence. Please see request for guidance in paragraph 10. END SUMMARY.

TILTING THE BALANCE TOWARD NABUCCO...

[1](#)2. (SBU) Speaking at a November 14 international energy summit in Baku, which GoAJ convened to discuss transporting Azeri oil and gas to Europe, Gyurcsany urged EU countries to support oil refinery development in the Caspian region, share technology across a variety of industries beyond energy, and pursue cooperation in education, science, and research in order to re-balance what he termed "asymmetrical" relations between the EU and the Caspian countries. Under present circumstances, he said, "we (the EU) need Azerbaijan and Turkmenistan more than they need us" and "nothing will happen" until they decide to increase their production and sell more oil and gas to the EU.

[1](#)3. (SBU) Arguing that "Nabucco is not just a business venture, but a complex security matter," Gyurcsany called for

direct EU financial support for the project and suggested that the EU could later sell its shares in the pipeline once it is "stabilized." Speaking to reporters after the event, Gyurcsany said "this conference represents a step forward, but we still have another couple hundred to take" and added that it was only by his threat to withhold signature from the summit's closing declaration that he was able to secure explicit reference to Nabucco in the document.

...AS LONG AS THE RUSSIANS DON'T MIND

14. (C) Gyurcsany's "outside the box" proposal of an energy partnership among the European Union, the countries in the Caspian region, and Russia made compelling headlines in Budapest, but so far there is scant detail on how he would see such an arrangement taking shape. Based on his view that Caspian energy resources are unlikely to ease Europe's dependence on Russian energy, Gyurcsany suggested that mutual agreements could allow each party to most effectively enforce its interests in the energy sphere.

15. (C) When asked by Ambassador Foley about the Prime Minister's surprising proposal, Hungarian Nabucco Ambassador Bayer claimed that Gyurcsany, speaking off the cuff about the "zero-sum atmosphere" that pervades the Eurasian energy discussion, said Russia should recognize the right of EU and Caspian countries to engage in energy trade without its interference, whereas they should also recognize Russia's interests in the energy sphere. According to Bayer,

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Gyurcsany's proposal was not for a formal tri-lateral partnership, but rather a mutual understanding among the parties about their respective rights. (Note: While we do not know exactly what he said in the closed summit session, Hungarian reporters use the word "partnership" to characterize Gyurcsany's proposal, based on their post-summit interview with him. End note.) In response to Ambassador Foley's direct questions, Ambassador Bayer, based on the information available to him, assured us of the following:

- There are no plans to propose a tri-lateral agreement with Russia at the Budapest Nabucco Summit in January.
- Hungary is not planning to invite Russia to participate in Nabucco, although Bayer would not rule out participation by a Russian company if the companies in the Nabucco Consortium so choose.
- Hungary has not had any recent intergovernmental contact with Russia on the South Stream project. To the best of his knowledge, disagreements between the Hungarian and Russian sides continue to hamper progress within the joint venture responsible for the feasibility study. Bayer does not expect an announcement on South Stream before the end of this year or early next year that could undercut the Budapest Summit. Bayer added that GOH is putting a great deal of effort into this summit and would not want to take any action that would damage its credibility.

16. (C) Opposition party members of the recently-established Parliamentary Nabucco Committee are concerned, however, that Gyurcsany's Baku proposal could be a prelude to an announcement of further progress on South Stream or an invitation to Russian participation in Nabucco. FIDESZ MP Mihaly Balla told EconOff on November 20 that he is convinced that the presence of Hungary's new Ambassador to Moscow, Gyorgy Gilyan, in the Prime Minister's Baku delegation is somehow related to Gyurcsany's proposal for partnership with Russia. According to Balla, Gilyan has well-established connections in Moscow and throughout the former Soviet bloc based on his pre-1989 work as a diplomat specializing in economic connections within the bloc. Moreover, Nabucco Committee staffers from FIDESZ and SzDSz expressed concern about a lack of transparency surrounding the Baku trip as the

Prime Minister's Office's failed to inform the Committee about the planned trip. The Nabucco Committee has invited Gyurcsany to give a full account of the Baku trip at a Committee meeting on November 26.

NABUCCO SUMMIT PREPARATIONS ON TRACK

¶7. (SBU) Ambassador Bayer's goal for the January summit in Budapest is that it will be a political summit with a practical focus, and political statements of support will be accompanied by frank dialogue on how to address the remaining obstacles to the project. He is working to secure the attendance of the highest level representatives of Nabucco-concerned countries--suppliers, transit players, and consumers--as well as international stakeholders such as the European Commission and the European Bank for Reconstruction and Development (EBRD). He also anticipates that the Intergovernmental Agreement could be close enough to its final form so that participants would be willing to initial a draft to signify their intent to sign a final version within a few weeks following the Summit. In the coming weeks, Bayer plans to begin work on a Budapest Declaration for participants to sign, in hopes that having a document prepared in advance might prevent the late-night negotiations on a consensus text that recently took place in Baku.

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¶8. (SBU) Bayer reiterated his request for the highest possible U.S. representation at the Summit, but understands that this may be difficult given our transition to a new administration. He said Ambassador Silverberg in Brussels had recently advised him to forward the Summit invitation to President-elect Obama's transition team and that he had forwarded it to the Hungarian Embassy in Washington for this purpose.

¶9. (SBU) Bayer related the following list of prospective attendees to the Budapest Summit:

- Austria: probably the new Prime Minister.
- Azerbaijan: President Aliev.
- Bulgaria: either President Parvanov or Prime Minister Stanishev.
- Czech Republic: Prime Minister Topolanek would like to attend, but must first coordinate his schedule with the EU presidency calendar.
- Egypt: possibly the Energy Minister.
- Georgia: Prime Minister Mgaloblishvili.
- Germany: no word yet; Chancellor Merkel currently has two invitations to Hungary, to the Summit and to the 20th anniversary of Hungary's border opening with Austria, and also is campaigning for re-election in 2009.
- Iraq: Prime Minister Maliki.
- Kazakhstan: an as yet undetermined Minister.
- Romania: uncertain due to upcoming elections.
- Turkey: Prime Minister Erdogan has given positive indications; Prime Minister Gyurcsany hopes to obtain an answer from him when they meet in Ankara on 27 November.
- Turkmenistan: no answer yet; Ashgabat "sounds positive about the Summit" but also is under heavy pressure from Russia. Bayer plans to visit Ashgabat in December and will present an invitation from President Solyom.

- Nabucco Consortium members: Bayer expects highest-level, probably CEO, participation.
- EBRD: no confirmation yet.
- European Commission: Commissioners Barroso and Solana are both seriously considering attending.

AVERTING THE WORST CASE

¶10. (C) COMMENT: Prime Minister Gyurcsany's recent performance in Baku suggests that Nabucco remains "a" priority for his government, but not necessarily "the" priority. Moreover, his overture to Russia causes us to wonder where his true priorities lay. GOH appears to be making every effort to ensure a successful, high-profile summit in January, and Gyurcsany must recognize that any announcement of deepened cooperation with Russia, whether related to South Stream or Nabucco, would seriously undermine the Summit and damage his government's and his own credibility. We believe Bayer to be an earnest and forthright interlocutor, but we realize that he is often not fully apprised of the inner workings of the Prime Minister's

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office with regard to Hungary's policy on Russia and pipelines (see Ref A and B). While we would like to subscribe to Bayer's more benign interpretation of Gyurcsany's remarks, we do not feel the situation warrants it given the Prime Minister's lack of transparency to date in his South Stream dealings. Accordingly, we consider it more prudent to anticipate the possibility of a worst-case scenario--a Russian invitation to Nabucco in Budapest in January--and we again request Washington's guidance (see Ref A) as we seek to avert rather than just respond if things go south... or rather east.

Foley